

# Railroad Building, Service and Revenue



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BEFORE

GRAIN DEALERS NATIONAL ASSOCIATION

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*Mr. President and Gentlemen of the Grain Dealers  
National Association:*

Before submitting to you such views that I have to express on the subject assigned to me, I cannot fail to take advantage of the opportunity to express my pleasure and satisfaction that this meeting of your great Association is held within the limits of this famous Commonwealth. Like a great many and probably a majority of the members of this Association, I was born and reared among the grain fields of the Middle West, but for a decade and a half my life has been spent on the soil of Virginia, where I have been engaged in transportation work and development. I wish to say that these years have been active and happy ones for me and as the result of my contact with this people I have become greatly attached to this great State and to its institutions and people.

I realize that, for a great many years, many conditions have existed which have heretofore held back this section from the progressive development which has characterized so many of our western communities, yet I am free to say that the progress of recent years in the State of Virginia is such as to arrest the attention and challenge the admiration of all people interested in the progress and development of this nation. I consider it fortunate that you are holding your sessions in this good City of

Norfolk. Probably no spot on American soil is of greater historic interest, and there is no body of men whose business is so absorbing that they cannot, with advantage to themselves and their business, take the opportunity of contemplating and discussing those things which have made particular places interesting and historic.

You have very near you the site of Jamestown, which was the location of the first permanent English settlement in America—a simple fact, but one which cannot fail to inspire emotions of patriotism in every one who loves the great country and the nation which has been developed from that small adventure.

You have before you the waters of Hampton Roads, on whose surface the combat between the Monitor and the Merrimac took place some fifty years ago. As a naval battle it was undecisive, nor were its results potential in deciding the great conflict then at issue, but it marked an epoch in the construction of the navies of the world. The step from the Merrimac to the great battleship, "Pennsylvania," whose construction was authorized by the last Congress, is but a short one, for the dreadnaught is only the development and expansion of the principle which had been successfully adapted in the construction of the Merrimac. Development is easy when the underlying principle has once been discovered and established.

These matters to which I call your attention, as well as many others, will, in themselves, I am sure, bring to your minds satisfaction that your meeting is held at a place so interesting to all American citi-

zens. I realize the fact, however, that this Association does not meet in annual session for the sole purpose of reflecting upon and discussing American history; that, in fact, you are an active, enthusiastic organization which is making history itself; and that necessarily your chief interest, so far as locality is concerned, is its capacity for developing commercial activities; and, on this ground, too, I feel that I am able to congratulate this Association upon the holding of its present session at the City of Norfolk.

I have no doubt that, during your visit here, you will have the opportunity of examining the harbor and the traffic facilities of this city, and such an examination would be well worth your while. There is no port on the Atlantic Coast which has so many advantages as those which attach to this harbor, and the time is not far distant when a large portion of the commerce of the West will seek its outlet through the waters of Norfolk Harbor. As soon as the advantages of this port, its many conveniences, and its nearness to the Middle West are thoroughly appreciated, there can be no question but that the City of Norfolk will become the metropolis through which the largest portion of the splendid commerce of the Middle West will pass. I do not know of any body of men that will more quickly realize the benefit that they may derive from the use of Norfolk Harbor as a seat of commercial activity than this Association of Grain Dealers, and I apprehend that your meeting here will be followed by the formation of associations and connections which will necessarily redound to the mutual benefit of the sections that will thus be brought together. I need not as-

sure you of the coöperation of the transportation companies having their terminals in this city. Both their interest and wishes induce towards the development of these lines of traffic and you can be assured of fair dealing and active coöperation on their part in bringing together these sections of our country whose geographical relations and historic connections are such as to encourage and develop trade alliances.

This brings us to the subject which has been assigned me for discussion before your body. The fact is that I was informed by the committee that I was not only to make an address before the Grain Dealers Association, but I was told what I had to talk about, for a subject had been assigned to me; to wit, "Railroad Building, Service, and Revenue."

I must confess that I was gratified when I found out that I had been requested to present my views with reference to railroad building, service, and revenue. This is a work to which my life has been almost exclusively devoted and the subject concerning which I should be best informed, but the fashion now-a-days, when information concerning railroads is sought, is not to make inquiry of those who have devoted their lives to the service, but reference is made to the expressed opinion of some economic theorist, or to a legislative committee composed of lawyers, doctors, and farmers. They decide whether a two-cent rate is remunerative and other questions affecting railroad service equally intricate, and concerning which they are without information on which to base a reasonable judgment. Hence, I even feel immensely flattered that the Grain Dealers

National Association has the notion, however erroneous that notion may be, that the president of a railroad company does know something about railroads.

It is now some forty years ago—it may have been more, but we will let it go at that, for I will admit to that length of service without further proof—since I began my work in the lower ranks of railroad service, and the thing that most impressed itself upon my mind in connection with the service was the caution painted on the signboards at many railroad crossings: “Stop, Look, and Listen.” It would be a very wise and fortunate thing for the American people, as they consider the various phases of the railroad problem as they confront the country to-day, to observe that maxim; and that, in considering the relationship of the railroads to the people of this country, the public should “Stop, Look, and Listen.”

No one can obtain a proper notion of the present situation nor predict the mode in which the railroad problem can be best handled in the future without studying the conditions that have surrounded railroad construction and operation in the past. Railroad building has been wholly developed during the past seventy-five years. In its beginnings and during its experimental stages, no one could tell whether or not railroad transportation could be made commercially profitable. That the construction of such roads would result in great benefit to communities to which they were tributary was easily and quickly recognized. The great expense, however, involved both in construction and maintenance

was such that in the early history of railroad construction no individuals were willing to embark their fortunes in such uncertain enterprises, and hence it was that, throughout this country, the earlier roads were constructed under the auspices of the State Governments and with funds largely contributed by the State itself, or by the communities that were to be directly benefitted by the location. These roads were almost always short lines, usually connecting up two cities or communities that were chiefly instrumental in the promotion of the enterprise and with no connections between themselves. They were local in their character and depended upon the local business for their maintenance and development. The experience of some twenty-five or thirty years demonstrated the fact that upon very few of such lines was the local business capable of meeting the vast amount of expense incident to the maintenance even of a short line of road, and hence it was that practically all of the state-owned and state-operated railroads of the country have, from time to time, passed through the bankrupt court and their existence as separate organizations wiped out.

It was at this stage that the expanding business of the country justified the adjustment of railroad facilities for the development of through business and a policy was inaugurated for the establishment of through lines of traffic which would tend towards the establishment and maintenance of consistent and regular traffic which would, by its bulk, justify the construction and existence of a more extended train service, and hence a cheapening of the cost of the units which go to make up the final sum of trans-

portation expenses. This work could not have been carried on by a state road, subject as those roads were to the control of the legislatures of the various states that had subscribed to and, in most instances, controlled the major portion of stock of such roads. Circumscribed as they were by the limitations of state lines, the union and amalgamation with roads outside the state was an impossibility, and hence such roads languished until they could no longer be maintained. State ownership was abandoned, not by reason of any defined purpose on the part of the states to relinquish their control of and interest in these highways of commerce, but by reason of the fact that the ownership, control, and operation by the state of such avenues of commerce became practically an impossibility. No commercial enterprise, however patriotic, can succeed unless it pays. The state-owned railroad failed to meet the commercial necessities of the times and hence such ownership passed away by sale, either voluntary or involuntary, evidencing the collapse of an unworkable proposition.

This may be termed the first stage of the railroad problem in this country, which came to its conclusion about the period of the Civil War, and at least demonstrated one phase of the situation—that is, that the American people will not look again to either the State or the National Government to provide its transportation facilities. Political appointees for such work will not make the wheels go around.

The next period, extending for some twenty-five years, was a period of expansion and construction involving the establishment under private owner-

ship of coördinated lines of railway, or railway systems as they are commonly called, under which great trunk lines have been established which have been potential factors in the development of this country and the establishment of great industrial centers.

During this period, the conduct of the railroad business was carried on as a private business, divested of state ownership and practically without any supervision from either Federal or State Government. The simple fact is that the experiment of state-owned or government-owned railroads had been so costly to the communities which had entered upon that experiment that they were very willing to surrender all of the functions of government, so far as necessary for railroad construction, maintenance, and development, to anybody who was willing to risk his money in an enterprise which had been so disastrous to the states themselves, so far as the investment was concerned, and the responsibility for which they were anxious to be rid of.

It was during the period of the generation succeeding the Civil War that railroad construction reached its highwater mark. The imagination of the American people was aroused and the development of the Western States proceeded with unexampled activity. The railroads were the pioneers in all of this development and whatever may be said for or against the men who, during that generation, were potential in the control of the affairs of the railway companies, still it must be admitted that they were the most potent factors in the building up of American industry and communities, and to them belongs the largest share of credit for the up-

lift given to the American nation. It is true that they carried on their great business with a free hand and now and then an injustice may have been suffered by some community, yet, surveying the history of the time, there can be but little doubt that the final results were highly beneficial to the American people, and under no other conditions is it at all probable that the same tremendous advances could have been accomplished.

It was a period of fierce and uncontrolled competition, in which the qualities of the statesman and general were both brought into action and on each of these lines were developed men capable of holding positions alongside with the heroes in statecraft or war that have been produced at any time or by any nation. The establishment of trunk lines of railroad traversing our continent involved the exercise of capacity, of daring, of persistent courage, and diplomacy unexcelled in the history of any nation or time.

It is true that the fierceness of the struggle for business which was necessary to maintain the financial integrity of the great railroads which had been constructed brought about practices that, under present conditions, are considered and were, in fact, reprehensible in the extreme, but he is a poor philosopher or critic who undertakes to criticise a particular custom, habit, or practice outside of and away from the environment which brought about the practice.

These things were all part and parcel of a career of progress brought on by American enterprise and initiative. They accomplished their own great work and, having accomplished it, they have passed away

like many other things which were part and parcel of the same system.

By this brief history, one who "stops, looks, and listens" will have seen that we have practically, in this country, passed through two stages of railroad development, the first being the stage of government-owned, but not government-operated, railroads, and the second stage one of privately owned railroads divested of government ownership and practically free from governmental control. The first resulted in the financial collapse of the roads themselves, and the second in a competition so fierce and relentless that practices became prevalent which resulted in grave injustice to individuals and communities.

Thus we see that two systems of railroad development have been in practice tried out by the American people—one, after reaching a stage of practical collapse, has been definitely abandoned, and the other, although resulting in conditions which were subject to grave criticism, produced results highly creditable to American enterprise and initiative. The next problem was to preserve the good and eliminate the bad features of the existing system or adopt some new plan of handling the transportation problem.

It soon became apparent that only two possible solutions remained to be exploited. Those were: Either the taking over by the Federal Government of the railroads of the country, whereby that Government would become the owner and operator of the railroads of the country; or to continue the operation of the railroads under the same ownership

and control under which they had been constructed and developed, but imposing upon them Government supervision and regulation of their rates and practices.

So well satisfied was the mind of the American people concerning the inexpediency of a republican government undertaking to operate tens of thousands of miles of railroads, necessitating the employment and the conversion of hundreds of thousands of voters into government employees, that practically by unanimous opinion any idea of the Government undertaking to place upon itself the burdens, risks, and dangers of the transportation problem was soon abandoned, and the other alternative was easily accepted and is now a part of the policy of this country.

Whether the present system will be entirely successful is yet an unsolved problem, and its final success will depend upon the intelligence and patience of the business men of America and their willingness to coöperate with the railway companies upon a fair and reasonable basis.

It goes without saying that the present system of supervision, control, and regulation has and will have a general tendency towards the curtailment of railroad construction. The element of speculation has always been dear to the hearts of the adventurous and courageous Anglo-Saxon race. Its imagination has been stirred up by the possibilities of conquest, whether in the field of battle or industry, and the hope of great reward has been the incentive which has induced the taking of great risks. These were the conditions and hopes which inspired the

pioneer road-builders, when no question about "reasonable rates," or "reasonable return on the investment," or "watered stock" was asked, and people were willing to risk their lives and fortunes in the construction of great roads, the development of which held out hope of great reward. Whether this restrictive tendency will continue to such an extent as to substantially impair the progress of American industry and enterprise in the further and complete development of the transportation business, cannot yet be determined, but if it should happen that American initiative is curbed and fettered as the result of too much regulation, then the benefits resulting from this control have been purchased at too great a cost. No nation can afford to destroy the enthusiasm and imagination of individuals engaged in great enterprises. Dry rot would follow.

Our people, whether in the railroad business or any other business, are and ought to be willing to impose upon themselves such restrictive laws as will provide that each one shall receive fair treatment and even-handed justice from every public service corporation, and no one should be restive under the operation of laws which have for their object the accomplishment of these purposes, but any laws which fail to recognize that the railway companies, under the present status, are conducting a business, the rights of which are and must be respected, are unjust, unequal, and bring about positive and specific wrong to those whose lives and fortunes are dedicated to the work, and such injustice will, in the end, bring about grave perils to the nation itself. The simple fact is that private capital

has come in and is to-day and, for more than a generation, has been furnishing to the American people transportation facilities which the states at first undertook to furnish and which actual practice showed that they were incapable of furnishing; and, having invoked the investment of private capital in these great enterprises, such capital is entitled to such fair reward as is consistent with furnishing a reasonable service at reasonable rates. If such reasonable rates in fact produce a liberal return on the capital invested, it should be the subject of congratulation and evidence of the fact that the company is in fact properly fulfilling its duty as a public servant.

It is unquestionably a fact that, whether the railroads of this country will be permitted to enjoy a proper revenue, will be dependent upon the good sense and fair judgment of the business men of this country. They are the people who, in the first instance, pay the rates, and it is at their instance and as the result of litigation instigated by them that the usual attack is made.

The making of railroad rates is so complicated a proposition, involving so many elements concerning which there may be differences of opinion, that there are few, if any, rates established by any of the railroad companies which may not be subject to some plausible attack, and it would seem that the tendency now-a-days is to litigate practically every rate or rate adjustment. To my mind, this condition presents an unfortunate state of affairs from which the railway companies are receiving substantial harm, the effect of which, if continued, will eventually be far reaching. While it is true that the mercantile

shippers of the country have but comparatively slight interest in the actual amount of a given rate for the reason that a proper and reasonable transportation cost ought to be and is absorbed in the price of the article to the ultimate consumer, yet such shippers are vitally interested in the relation of rates, as such relation cuts a large figure in competitive business and may be potential in the selection of the place at which the business is to be done. Under these circumstances, experience has developed the fact that in but a small part of the litigation over rate questions has emphasis been placed upon the unreasonableness of a particular rate in and of itself, but the cases have usually rested upon the question of the relationship of the rates and decisions have usually been made on the theory that, if a railroad can haul certain traffic to such and such a place at a given rate, why may it not be compelled to haul such traffic to another place at a similar rate? I am not proposing to go in detail into these questions, but I desire to bring home to you the viewpoint of a railway company to these rate controversies, which I think are worthy of consideration by any association of fair-minded business men. You will easily recognize that, as a business proposition, the railway company is chiefly interested in its own revenue, for without adequate revenue it can neither perform its duties to the public nor properly protect the interests of those who have risked their money in the business of the company. If the roads do not earn sufficient revenue to make the operation a paying proposition, then the result will be a financial collapse such as has heretofore happened with the

state-owned roads, to which allusion has already been made.

When a given rate is reduced, not because it has been shown to be excessive in and of itself, but because of its relation to some other rate, or because on account of some competitive reason it has seemed fair to a commission or court that a particular community should have a particular rate granted regardless of the question of cost, then it is apparent that the railway company is losing revenue which ought to be made up from some source, but yet I think that the shippers of the country, in their zeal in promoting their own interests, have a disposition to press lower rates upon the railway companies without giving proper consideration to the needs of these companies for adequate revenue.

What I have just said, I think, is correct reasoning unless, as a matter of fact, the railroads of this country are earning an excess amount of revenue. If this is true, then it would be just and appropriate to demand a reduction and readjustment of those rates.

There was, a few years ago, a general idea prevailing in the minds of the American people that the railroads of the country were guilty of great extortion in their charges exacted from the shipping public, and that the roads were endeavoring to secure for their stockholders large returns upon supposed investments that had never been made and that the value of the properties embarked in this public service was in no degree commensurate to the capital upon which the railroads were asking a return. The investigation, however, by state commissions, the

Interstate Commerce Commission, and by the courts in rate cases, has practically exploded this theory, for in every case where a thorough and scientific investigation has been made of railroad property, it has been demonstrated that the outstanding capital upon which return is asked is less than the value of the property actually devoted to the public service, whether that value be ascertained by its present cost of reproduction or the actual cost of construction of the premises and property so dedicated to the public work.

When this capital account of the railway companies is thoroughly recognized and accepted by the public as being a fair and reasonable representation of the investment upon which the owners may properly ask for a fair return, it would seem that a large part of the matters in controversy should be eliminated, for concerning the receipts and disbursements resulting from the operation of the railroads of this country, such matters are an open book, subject to the inspection of any one who desires to examine the reports regularly filed in public records. The returns on these investments are known to be very meager, probably not exceeding, on an average, four or five per cent., and not averaging that on ninety or ninety-five per cent. of the railway mileage of this country. No fair-minded man engaged in business will claim that such a return is excessive.

The critics of the railway companies and fault-finders heretofore concentrated their attack and attempted to prejudice the public mind by claiming excessive capitalization, emphasizing this charge by the popular by-word of "watered stock." Investi-

gations, however, have shown, for all practical purposes, that these charges are without foundation and the attacks against railway companies are now, to a certain extent, concentrated on the fact that, although they do not pay excessive returns to their stockholders on the sums invested on account of capital, yet that the roads earn large sums of money in addition to the amounts that are distributed among their stockholders and these sums are paid for the purpose of betterments, renewals, and repairs, and that thereby the excessive revenues are collected and used for unnecessary purposes, or at least for purposes to which current revenue should not be demanded. On this point I invoke the aid of conservative business men for the purpose of creating a proper public sentiment towards the proper financing of these instrumentalities of public service. The railway companies of this country should have revenues sufficient to properly and promptly pay the cost of doing business, including a reasonable return upon the fair value of the property devoted to the public service.

To this there can be no denial, nor will the most radical reformer enter any protest against rates which are adjusted to accomplish this end, but, in addition, the business men of this country who are in the habit of dealing with large affairs and who recognize the vicissitudes surrounding great business enterprises will concede that it is right and proper that, in addition to the revenues just mentioned, the railroad company should be permitted rates that will accumulate a reasonable surplus which will enable it to furnish such non-revenue

producing betterments that advancing civilization demands and which the progress of the country deems essential to the public safety and convenience, as well as to tide over the lean years of operation which inevitably come in every business.

For instance, in years gone by, grade crossings were not deemed injurious to the public safety. In these days on busy railroads, such crossings are a menace to the public and every well-conducted road in this country is using its best endeavors to eliminate such dangers from operation. When broken crossings are made it is a difficult proposition to add such cost to the capital account. Unless they involve the expenditure of considerable sums of money, they should be paid for from operating expenses, not as a part of operation, it is true, but out of operating expenses in the sense that when the results of the operation of the road create a sum sufficient to enable the road to put in such non-revenue producing improvements, then such roads should not be subject to criticism in a rate case on the ground of earning excessive revenue, with the consequent conclusion that its rates are extortionate. So it is with the renewal and construction of its smaller country stations, and many other illustrations could be multiplied showing the necessity of revenue over and above a reasonable return to the stockholders in order that the financial integrity of the railroads of this country may be maintained.

In the event that no such allowance is made and the demands for such improvements are pressed and in many cases compelled by controlling authority, the money must come from increased capitaliza-

tion. It is doubtful whether capital can be secured for the railroads of this country when the proposition is fairly placed before the investing public that the purpose of such capitalization is to add public conveniences and additional safeguards which are recognized as adding nothing to the earning power of the road; and, in the event that such capital can be obtained by reason of the reserved credit of the road applying for loans, then it must be recognized that it will not be many years before the railroads of this country, like the railroads of England and continental Europe, will become topheavy as the result of outstanding capital, with its attendant overhead charges, and will be utterly unable to pay a reasonable return thereon without exacting from the people rates which, at that time, will doubtless be in fact burdensome. Foreclosure and accompanying financial disaster must follow such a policy.

Only a few words more and I have finished. Perhaps I have already taken up too much of your time in discussing these matters which are of common interest, but emphasizing the viewpoint of the railroads. Yet, if I have, it is due to your own invitation which has directed me, in the assignment of my subject, to discuss before you railroad building, service, and revenue, and the greatest of these is revenue, for without that there can be neither railroad building nor adequate service.

Each of us are representatives of great interests which have been and will continue to be potential in the development of this nation. I sincerely hope that you will not come to the conclusion that I have been speaking two words for myself and the inter-

ests that I particularly represent and only one for you and your Association. This has not been my purpose. My long experience in railroad work, which has brought me necessarily in contact with many other great enterprises and businesses, has, I hope, tended to free my mind, in some degree at least, from narrow prejudices or lop-sided views on these subjects, and I hope in the suggestions that I have thrown out that they have come from an earnest desire to increase and preserve for the American people that which will stand for the best interests of the people as a whole.

I can, however, see breakers ahead in the handling of this transportation problem and it is my purpose, in every way in my power, to induce such people with whom I come in contact to "stop, look, and listen," for by such thoughtful observation alone can future troubles be avoided.

The American people demand a prompt, efficient, and adequate transportation service without discrimination and with readiness to serve all upon equal terms, and this they are entitled to have at reasonable rates. This character of service the railroads should be willing and must give, but while performing the service which the people demand, there should not be an attempt to niggardly withhold from the railways such revenues that may be necessary to furnish an efficient service and to acquire a surplus in order to preserve the stability and financial integrity of the properties. Every business has the right to demand this.

You, gentlemen of the Grain Dealers National Association, you particularly and the shippers of this

country in general, are face to face with the greatest transportation shortage that has ever confronted this country, and the responsibility for this does not lie with the transportation companies. They cannot continue acquiring capital for further railroad construction or increased facilities with the situation that now confronts them. The freight rates for the last decade have been gradually decreasing and the operating expenses, caused by the increased cost of material and advances of rates of pay to labor, have been expanded by leaps and bounds—not gradually. This is an open book and you can determine the facts for yourself by the examination of the annual reports of the railroads which are now being published for the last fiscal year, ending June 30th, 1912. It is a well-known fact that a few years ago where a shipper would show to a railroad traffic manager that some particular rate was out of line with the competitive conditions, that such a rate would be adjusted. To-day this cannot be done, as the railroads are put on notice that they cannot advance any rate, therefore they will not voluntarily reduce a rate. The situation of the railroad that I represent is that it should, in order to meet its present and probable future requirements, place orders for ten thousand freight cars and one hundred and twenty-five locomotives, but I do not see my way clear to do this, as I cannot determine where the money would come from to pay for them. There should be a horizontal advance on every freight tariff for the entire country that is filed with the Interstate Commerce Commission. I make no exceptions, and you gentlemen rep-

resenting one of the largest commodities for transportation should "stop, look and listen," and lend your aid to a move of this character.

The Children of Israel, some thirty centuries ago, complained that they could not make brick without straw, nor can the railroads furnish the service that is now demanded unless public sentiment sustains their demand for larger revenue.